

Division of Medicaid Announces \$268 million FY2005 Deficit

2003 Medicaid Accounting Error and Suspension of PLAD Reform Biggest Contributors to Shortfall

(Jackson, Miss.) Mississippi Division of Medicaid Executive Director Dr. Warren A. Jones announced today that the program's expenses could run \$268 million more than previously projected for the current fiscal year, which ends July 1, 2005. Almost half of the figure was caused by a 2003 accounting error and underfunding of last year's Medicaid deficit.

"Accounting mistakes in the books at Medicaid made before we arrived led to inaccuracies in spending projections," said Jones. "Those 2003 errors, combined with the delay in the PLAD reform, have left a tremendous hole in our program's fiscal health," he added.

According to Jones, the \$268 million deficit is caused by three main factors:

\$117 million - Miscalculation Dating Back to 2003

Last year's Medicaid deficit was actually \$131.2 million, \$78 million larger than projected. Perhaps worse, \$39 million of Medicaid spending that occurred in July 2003 was not even entered in the agency's books until Spring 2004. This accounting error resulted in not only FY04 spending being underreported to the Legislature, it also resulted in a \$39 million error in spending projections for this year.

The 2004 Legislature provided a deficit appropriation of \$53.2 million. This did not fund the full deficit request of the Division of Medicaid, which was actually underestimated, nor did it take into account the \$39 million accounting error. Therefore, in June 2004 (the end of the 2004 Fiscal Year), the Division of Medicaid had to borrow \$78 million to fund the rest of the Fiscal Year 2004 deficit.

The \$78 million loan used to fund the FY 04 deficit and the \$39 million which was not included in the original FY 05 cost projection are included in newly projected the Fiscal Year 2005 deficit.

\$61 million - 48,000 More Recipients and Higher-Than-Normal Use of Services

When the original projections were made for the state cost of Medicaid in FY 05, the calculations were based on the 2003 report that 720,000 Mississippians were enrolled in Medicaid. This fall, it was determined that 768,000 Mississippians were actually on the Medicaid rolls. The cost of care for these additional 48,000 people was not included in the FY 05 budget. Furthermore, the fear-mongering over Medicaid reform for much of the past year artificially increased demand for Medicaid services. The extra cost of 48,000 more people and the entire Medicaid population using more services than normal is \$61 million.

\$90 million - Suspension of PLAD Reform

The 2004 Medicaid Reform Act shifted the cost of health care for PLADs beneficiaries to Medicare. The original cost projection for this program was \$64 million. However, the cost of the PLADs program has grown far beyond expectations. Additionally, more than 5600 people have applied to enroll in PLADs if the Legislature re-establishes this eligibility category. The revised cost of maintaining the PLADs eligibility category through the end of Fiscal Year 2005 is \$90 million.

While Dr. Jones told a House Committee earlier this month that his agency would have an official deficit projection ready for legislators by January 15, the size of the preliminary numbers he gave Governor Barbour on Friday led the Governor to instruct Jones to re-check that deficit information and make it available to legislators and the public immediately. "We wanted to get accurate information out quickly so there would be more time available to find a solution," said Jones.

“The size of this Medicaid deficit is troubling. We knew that the delaying of the PLADs reform would create a deficit, However, these accounting errors and the continuing surge in the number of recipients make this a much bigger problem than anyone envisioned,” said Governor Barbour. “We must now roll up our sleeves and figure out a solution.”

State law mandates the Governor to make cuts to a state program when its deficit exceeds 12% six months into a fiscal year. “I am bound by law to reduce this program, but before I exercise that authority, I want to give the Legislature a chance to address this deficit during the Regular Session in January,” said Governor Barbour.

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Below is a summary of the actual state cost of the Medicaid program which is appropriated by the Legislature:

Fiscal Year 2003

General Funds	\$236,953,687
Health Care Expendable Funds	\$131,818,607
Budget Contingency Funds	\$43,017,795
Enhanced Federal Match	<u>+\$16,600,000</u>
Total Trending State Appropriations	\$428,390,089

Fiscal Year 2004

General Funds	\$257,955,284
Health Care Expendable Funds	\$57,752,630
Budget Contingency Funds	\$38,900,000
Enhanced Federal Match	<u>+\$103,757,066</u>
Total Trending State Appropriations	\$458,364,980
FY 04 Non-Appropriated Deficit	<u>+\$78,000,000</u>
Actual FY 04 Needed Appropriation	\$536,364,980

Fiscal Year 2005

General Funds	\$247,025,158
Health Care Expendable Funds	\$167,273,753
Budget Contingency Funds	\$5,000,000
Enhanced Federal Match	<u>N/A</u>
Total State Appropriations	\$419,298,911

July 2003 accounting error	\$39,000,000
PLADS coverage through FY 05	\$90,000,000
Higher than normal use & more eligible	<u>\$61,000,000</u>

FY 05 Needed State Appropriation \$609,298,911

From Fiscal Year 2003 to Fiscal Year 2004, the state cost of Medicaid grew 25%. From Fiscal Year 2004 to Fiscal Year 2005, if the \$268 million deficit is fully funded, the program will have grown 13.6%.